



NCUA Media Advisory

NCUA Adopts Reforms for Corporate Credit Union System, Protects Consumers

Regulator Announces Plan to Address Impaired Assets, Conserves 3 Corporate Credit Unions, Preserves Stability in Credit Union Industry

September 24, 2010, Alexandria, Va. – The National Credit Union Administration today assumed control of three undercapitalized corporate credit unions, announced a plan to isolate the impaired assets in the corporate credit union system, and finalized a set of stronger regulations – key elements in its efforts to resolve the financial challenges facing corporate credit unions without disrupting consumer service.

"The steps NCUA has taken today represent a comprehensive solution to the problems afflicting the corporate credit union system," said NCUA Chairman Debbie Matz. "Just as important, this plan puts consumers first and ensures that there will be no loss to taxpayers. This plan also provides an orderly transition to a new regulatory regime for corporates. In addition, we are affording local credit unions greater choice in selection of their liquidity and back office provider."

The Temporary Corporate Credit Union Share Guarantee Program remains fully in effect for the entire corporate system through December 31, 2012. In addition, NCUA continues to insure credit union and consumer deposits up to \$250,000 per account.

Setting the plan into motion required conservatorship today of three additional corporate credit unions that are not viable: Members United Corporate Federal Credit Union of Warrenville, Illinois; Southwest Corporate Federal Credit Union of Plano, Texas; and Constitution Corporate Federal Credit Union of Wallingford, Connecticut. In 2009, U.S. Central Corporate Federal Credit Union of Lenexa, Kansas, and Western Corporate Federal Credit Union of San Dimas, California, were also placed into conservatorship.

In a conservatorship, NCUA replaces an institution's management and board, operating it in a way that protects taxpayers' and members' interests during its orderly transition and resolution.

The plan to address the impaired assets and resolve these troubled institutions involves several interrelated steps:

- Isolating the impaired securities (legacy assets) held by these five corporate credit unions;
- Repackaging the legacy assets into new securities with an NCUA guarantee backed by the unconditional full faith and credit of the United States government;
- Issuing the new securities to investors on the open market;
- Transferring the corporates' still-valuable assets to newly created "bridge banks" that will allow for continued operations; and
- Transitioning operations now under NCUA conservatorship over a target of 24 months to other service providers.

NCUA has consulted with the Treasury, Federal Reserve and other federal financial regulators in developing these plans, and will continue to work closely with these agencies to ensure the orderly resolution of conserved corporates, the effective implementation of the steps outlined, and the continued smooth operation of the credit union system.

In particular, the life of the Temporary Corporate Credit Union Stabilization Fund has been extended to June 30, 2021, with the concurrence of Treasury Secretary Timothy F. Geithner. This will provide the NCUA Board with important flexibility in mitigating the impact of the annual assessments to credit unions for the costs over this period. It should be noted that the costs will be borne exclusively by the credit union industry, and will not result in any loss to taxpayers.

NCUA adopted a new set of regulatory reforms aimed at strengthening the corporate credit union system. The new corporate regulation (NCUA Rules and Regulations, Part 704):

- Implements stronger capital requirements and establishes prompt corrective action measures for corporate credit unions;
- Establishes clear concentration limits on investments that will require corporate credit unions to better diversify their portfolios;
- Improves asset-liability management requirements to avoid liquidity and interest rate risks; and
- Raises governance standards to improve levels of experience and expertise on corporate boards.

"NCUA's action to deal with the troubled institutions and the impaired securities on the corporates' books – together with reforms to the NCUA regulation that governs the corporate system – will create stronger safeguards for the nation's entire credit union

system,” said Chairman Matz. “The credit union community has long hoped to see a coordinated, market-based, least-cost solution to the corporate crisis, and we have delivered that today.”

NCUA Board Member Gigi Hyland noted, “The regulatory reforms and plan to resolve the troubled institutions and their impaired assets are key steps to allow the credit union system to move forward. The corporate rule is stronger thanks to the 815 commenters who provided NCUA feedback. And, these actions reflect the key principle that has guided NCUA’s efforts – finding a solution that minimizes, as much as possible, the cost to the credit union system while spreading that cost out over time.”

NCUA Board Member Michael Fryzel commented that “NCUA, along with the entire credit union industry, has struggled with the corporate problem for over two years. Today's Board actions culminate months of analysis, review and planning and establish a regulatory framework and viable options that will prevent a reoccurrence of this crisis and give credit unions a choice for the future.”

Chairman Matz also emphasized that the future of the remainder of the corporate credit union system will be determined by the private sector’s judgment, not by any government dictate.

“The leaders of the nation’s consumer credit unions must make the strategic business decisions about whether to recapitalize some of the remaining, viable corporates, switch to a different corporate, or seek services at some other type of institution,” said Matz. “NCUA is confident that the new framework will enable the choices ahead to be made in the context of strong and safe credit union operations. The credit union industry, and the 90 million consumers it serves, deserve nothing less.”

Complete information is available at
<http://www.ncua.gov/Resources/CorporateCU/CSRMain.aspx>.

NCUA is the independent federal agency that regulates, charters and supervises federal credit unions. With the backing of the full faith and credit of the U.S. government, NCUA operates and manages the National Credit Union Share Insurance Fund, insuring the deposits of over 90 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

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